

DIRECTOR OF CENTRAL INTELLIGENCE

20 December 1985

MEMORANDUM FOR: Director, SOVA, DI

FROM: DCI

SUBJECT: Outlook for Soviet
Defense Spending

The attached strikes me as a good
outline.

William J. Casey

Attachment:

Outline, dtd 17 Dec 85,
Gorbachev's Modernization
Program: Implications
for Defense

18 December 1985

Memorandum for: Director of Central Intelligence

FROM: Douglas J. MacEachin

Mr. Casey -

STAT This is the [] paper Bob Gates mentioned in our Monday session on the outlook for Soviet defense spending. As you can see, it is a rather large, omnibus project. On further reflection, we are of the opinion that for our prepared "overview" paper on the implications of Gorbachev's economic plan for defense spending, we should strive for a shorter, more sharply focused product. A first cut at an outline for the overview is attached.

STAT []
Douglas J. MacEachin

Director,

SOVA
Office of Soviet Analysis

17 December 1985

Gorbachev's Modernization Program: Implications for Defense

I. Summary

II. Introduction

- A. Watchword of Gorbachev's economic policy has been "modernization"
 - 1. Basis in developments in the economy
 - 2. The context with respect to superpower competition
- B. Short-term and long-term strategy: reliance on the human factor followed by productivity gains resulting from industrial modernization
- C. A modernization program on the scale outlined by Gorbachev, however, requires a rearrangement of priorities.
 - 1. This memorandum describes what the program implies for Soviet defense programs
 - 2. It also discusses the implications of the program for Soviet arms control policy and Soviet relations with the United States

III. Gorbachev's Strategy

A. Elements of the Gorbachev Program

- 1. Investment goals
 - a. Renewal of the country's capital stock
 - b. Stress on key high-tech industries
 - c. Increased retooling at expense of new construction
 - d. The role of imports
- 2. R&D goals and policies
 - a. Funding
 - b. Commitment to applied research and production support
- 3. Organizational measures
 - a. General
 - b. Those that impinge on defense: shifting defense managers and creation of new machinery bureau

B. Reflection of the Modernization Program in the 1986-90 and 1986 plans

1. Five-year plan first to appear

- a. Skimpy on details
- b. But suggested some backsliding on modernization program because investment target seemed too low to accomplish the renewal of capital stock Gorbachev had been calling for

2. A few weeks later, the 1986 Plan announced

- a. Marked by extremely ambitious investment targets, especially in machine-building sector, consistent with what Gorbachev had said in spring and summer of 1985
- b. Goals for production of machinery showed less growth than implied goal for investment in machinery
- c. Gorbachev's insistence on starting the five-year plan with big push and comments on what happened to 1981-85 plan.

IV. Implications for Defense

- A. Modernization program conflicts with defense programs most directly in the machine-building sector--supplies defense hardware, investment goods, consumer durables
- B. The investment bind implied by the modernization program and the 1986 plan (the arithmetic, including discussion of imports)

V. Is a sustained plateau or absolute decline in procurement plausible?

A. Trends in defense spending, 1975-84 and projections, 1985-⁹⁰~~89~~

1. CIA estimates of past trends

- a. Why the slower growth
- b. Status of weapons programs and defense production capacity--overview.

2. Our own force projections indicate very slow growth in procurement

- a. the basis for the projections (including our assessment of Soviet requirements)
- b. the "total possible" or sum of the highs
- c. the "best estimate" taking uncertainty into account

3. The "best estimate" moreover considers only manufacturing capacity and R&D constraints and not the limits that the Politburo might impose to carry out the modernization program.

B. Summary of reporting on Soviet statements on defense and the economy

C. How Gorbachev could have defended his program

1. Slow growth or even small decline in procurement would permit major modernization of Soviet forces (exemplar forces from our force projection exercise) because current levels of procurement are so high
2. Modernization program would not erode defense industrial base; on contrary, would put USSR in a better position to compete in fielding advanced weapons in the 1990s (and in developing its own defenses against strategic missiles)
3. USSR retains the option of accelerating procurement if international situation requires it (although with some delay)

VI. Implications for Soviet Arms Control Policy

A. Soviet decisions on defense budget almost certainly made without counting on winning US concessions in arms control arena

1. The schedules involved in compiling a plan

2. Skepticism regarding US intentions

B. Economic benefits from arms control agreement not very great in the next few years ~~unless~~ ^{even if} concluded almost immediately (why?)

C. In 1990s, comprehensive agreement that reduced strategic forces and delayed deployment of a US strategic defense could be of great benefit to the Soviets

1. Soviet Union at a disadvantage in areas needed for strategic defensive systems

2. These systems would compete increasingly with the long-range modernization goals that extend to the year 2000

D. Meanwhile, Gorbachev will have incentive to avoid confrontations

1. Soviets hope (expect?) that US defense spending has peaked in real terms because of Congressional opposition and Gramm-Rudman

2. Probably would soften latest opposition to his modernization priorities from military/conservative interests

3. With ongoing US-Soviet dialogue, access to Western credits and technology would be easier.